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The Global Marketplace and Government Policy

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There is a growing tension between the increasingly global nature of the modern high-tech economy and the traditionally national or regional orientation of government and business decision makers.

How we respond to that tension will be the test of our own decision making. Clearly, technology and economics are out-pacing both traditional management practices and traditional politics. The standard geopolitical map and the emerging techno-economic map are out of sync. To put it another way, the global village envisioned by Marshall McLuhan may not be here yet, but the global marketplace surely is.

The Global Enterprise

Already, about one-half of all U.S. imports and exports are transactions between U.S. firms and their foreign affiliates or parents. What, from the viewpoint of public policy, are international economic transactions or foreign trade, then, often turn out to be merely internal transfers within an individual business firm. Also, about one-half of all U.S.-made products contain some foreign components. We truly have entered the age of the global enterprise.

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Here are some examples. Unisys is an amalgam of Burroughs and Sperry Rand, with annual sales in the neighborhood of $10 billion. Half of that is overseas, in over a hundred different industrialized and developing countries. The company uses components produced in four continents. Its financing is literally worldwide. Unisys recently had to raise $5 billion overnight, and did so through a consortium of 50 international banks in various countries around the world.

On another occasion, Unisys shifted a complex production operation from California to Singapore in less than 90 days, supposedly without missing a beat. It delivers anywhere in the world within 36 hours. All 100 percent of its products are shipped by jet airplanes. The communications needs of such an organization are uniquely modern and truly global.

Another way of looking at Unisys is to see that the very notion of property rights and corporate function is undergoing a fundamental change. This American company is simultaneously a customer of -- and a supplier to -- IBM and Honeywell in the United States, BASF, Phillips, and Siemens in the European Economic Community, and Fujitsu and Hitachi in Japan. These companies together engage in joint ventures, co-produce, serve as sources for each other, share output, and compete.

But Unisys is not unique. Let us take another example -- Corning Glass. Over half of its profits come from joint ventures, two-thirds of which are with a wide range of foreign companies, including Siemens in West Germany, Ciba Geigy in Switzerland, Samsung in South Korea, and Asahi Glass in Japan.

It is often said that "politics makes strange bedfellows," but this is true of global economics as well. In 1986, Texas Instruments sued Hitachi for patent infringement. Today, the two companies are teamed up to develop

the next generation of memory chips. Joint ventures between U.S. and Japanese firms are now commonplace in the computer chip area. Motorola shares output with Fujitsu, Toshiba, and Mitsubishi. Intel has technical exchanges with Fujitsu. National Semiconductor shares manufacturing with Mitsubishi.

It is intriguing to note that America's IBM is the role model for so many of the overseas activities of Japanese firms. Japanese economists believe that the key to IBM's global strength is the location of its basic research laboratories in Switzerland, Japan, and the United States, with 30-odd research divisions around the world.

Government policy seems stuck in the same old territorial mold, focusing narrowly on the geographical area of each unit's jurisdiction.

As a final example, consider Ford and Volkswagen. Although tough competitors in our domestic market, they merged their South American operations in Brazil and Argentina a few years ago to form Autolatino.

This trend is globalization from the viewpoint of the firm. But every enterprise, even the local supermarket, also has to deal with government and public policy. The political debates often seem to be taking place in a different, perhaps earlier world. Government policy seems stuck in the same old territorial mold, focusing narrowly on the geographical area of each unit's jurisdiction.

Key Points of Tension in Public Policy

Ironically, while the global marketplace is expanding and farsighted business executives prepare for the 21st century, we are seeing a resurgence of 19th century-style protectionist sentiment in the United States. This traditional public policy approach responds to the global economy with more controls over imports and exports. Nor is this attitude limited to the public sector. Many business and labor leaders are pushing hard to limit imports into the United States.

The new buzzword in Washington is *reciprocity*. Reciprocity is a strange beast. It is concerned with achieving positive trade balances with individual countries. But reciprocity as currently practiced focuses on imports into the United States, ignoring the export side of the international trade ledger.

But there is a second set of trade controls -- those on exports. These "national security" controls are necessarily oblivious to the question of trade balances. Nonetheless, *any* restriction on exports increases our trade deficit.

Thus the federal government has two conflicting sets of policies: (1) to restrain imports, because of the concern about the triple-digit (in billions) deficit in the U.S. balance of payments, but (2) simultaneously to restrain U.S. exports, which are the great hope of reducing that same deficit. To say that the left hand and the right hand are not terribly well coordinated understates the case.

Technology Transfers

A major current concern is the battle over technology transfer. With respect to Japan and aerospace technology, the Department of Commerce, on the one hand, and the Departments of Defense and State on the other are engaged in a tug-of-war over the Japanese building an advanced fighter aircraft, the FSX.

This is nothing new, although the sides have changed. In 1982, it was State vs. Defense, with Commerce pretty much in the background. That battle was over the natural gas pipeline between the Soviet Union and

Western Europe, and then concerns focused on extraterritoriality -- extending U.S. policy to the overseas operations of companies headquartered in the United States.

IBM is an important role model for overcoming national barriers to technology transfers. The company has basic research laboratories in Japan, Switzerland, and the United States. IBM has over 30 research divisions around the world. Thus, its international technology transfer is often internal to the firm.

Stanley Works of Connecticut presents a more modest and interesting variation. Engineers at its tool factories in France, England and Taiwan are developing automation techniques that are used on assembly lines here at home. It is useful, in this regard, to recognize the potential for technology transfers *into* the United States.

Overcoming Territorial Barriers to Air Travel

In this world of modern transportation and communication, it is interesting to look at the conflicts over international air rights. If there is anything inextricably linked to the global economy, it is modern transportation. Yet policy in this area is extremely territorial. The national airlines -- those that carry the country's flag -- are the primary focus of aviation policy in most countries. Very little attention is paid to the needs of the *consumers* -- i.e., the passengers. Here, too, the competitive pressures of the global marketplace often force national carriers to take broader approaches than the governments that charter them. Thus, Trans World Airlines has joint marketing agreements and cooperates on routes and schedules with eight foreign carriers, ranging from Air India to Air New Zealand to Air Canada.

TWA's agreement with Gulf Air, a Middle Eastern carrier, is especially intriguing. A Gulf Air crew daily flies one of its planes to London, where it turns it over to TWA. A TWA crew flies the plane to New York City and returns it to Gulf Air in London the next day. The result is that both carriers, as a practical matter, offer direct travel between the United States and the Middle East.

United Airlines has an agreement with British Airways whereby the two carriers share space at several airports and coordinate the scheduling of some flights. United offers its passengers seats on its partner's flights back to Europe, while the British airline provides its passengers with ready connections to the western part of the United States.

Other Territorial Restrictions

There are many other examples of how the tension between territorially-oriented governments and the global marketplace is resolved in practice. Taxation of foreign income is an old one. How to avoid double taxation has been the subject of many tax treaties. When Mobil pulled out of South Africa this spring, the decisive factor was a discouraging change in the taxation in the United States of its South African income. Another case in point is the series of attempts to impose U.S. environmental regulation on other nations by means of the World Bank and other foreign aid activities.

Finally, one other cloud on the horizon is the issue of controls over foreign direct investment. The 1988 trade act provided a statutory basis for interagency review of proposed foreign purchases of American businesses. The primary review criterion is national security. In addition, there is a strong drive in the Congress to enact legislation to require registration of foreign ownership.

So far, the Reagan and Bush administrations have been able to hold off these and other proposals to respond negatively to the global economy. If the trade deficit stays in the high triple-digit range, and if the United States finally experiences that long-postponed recession, however, these protectionist pressures may be exacerbated. In that event,

we would see even greater efforts toward restricting direct investment. Success in enacting such legislation could well generate retaliation by other nations.

Success in enacting legislation to require registration of ownership could well generate retaliation.

Somehow this is all reminiscent of the plaintive plea of that mythical business executive who cried, "Stop the world, I want to get off."

The Rise of International Regulation

In recent years, business/government relations have been further complicated by another level of response to the rise of the global economy. In addition to federal, state, county and local regulation, there now is international regulation. I do not mean regulation by foreign countries, but regulation by international agencies. In many ways, this is the natural response of politicians to the global economy. But, to put it mildly, not all of these regulatory activities are constructive.

Some types of cooperative regulation are traditional, going back to the 19th century. For example, the forerunner of the International Telecommunications Union was established back in 1865 as the International Telegraph Union. In those days, it dealt mainly with technical standards.

The European Community (EC) and the Organization for Economic Cooperation and Development (OECD) are the principal regulatory organizations of the major western nations. They have combined technical regulation with a great variety of rules and legislation designed to protect business -- their own.

There is an important distinction in this case between companies established within the jurisdiction of the European Community and foreign companies, that is, companies exporting from the United States. When pressed, the representatives of EC assure us that their restrictive regulations are aimed not at the United States but at Japan. Unfortunately, we do not know how good their aim is. The same sort of regulation that hits Japan could also damage trade with the United States. Moreover, if the dynamic Asian rim nations find themselves restricted in selling to Western Europe, they are likely to turn to the major alternative market, the United States, with even greater intensity.

There is also a new and different brand of regulation being developed by the United Nations and its specialized agencies. It has very little to do with protectionism or economic efficiency. These activities are in effect political efforts by the poorer countries, usually in the southern half of the globe, to increase their share of the world's income and wealth. This type of regulation is in a development phase. Yesterday's "advisory resolution" becomes today's "voluntary guideline" and tomorrow's legally binding treaty.

Such international agency regulation now covers many types of business activity. In the area of marketing, for instance, there is the World Health Organization's Infant Formula Code. This was supposed to be "voluntary," but ask Nestle how voluntary their compliance was. The chemical and pharmaceutical industries are also long-term targets of the World Health Organization.

The U.N.'s Economic and Social Council is developing a code governing multinational corporations. If enacted, its scope would be extremely broad, covering almost any company that tries to sell its products to people in another country. However, the language is very vague. According to the current draft of the code, multinational corporations should "avoid practices, products, or services which

cause detrimental effects on cultural patterns and socio-cultural objectives as determined by government." Not coincidentally, it sounds as if it had been written by a committee of international bureaucrats.

Fortunately, many members of what is called the Group of 77, the major developing nations of the United Nations, may not want to complete action on these matters quickly. Human nature being what it is, it is only natural for a representative of a very poor nation such as Upper Volta or Bangladesh to be reluctant to leave meetings in such desirable locations as Paris, Rome, New York, London, and Geneva. Even representatives of the most advanced nations have been known to make a career out of such negotiations.

1992: The European Community

Let us turn to a development that is much closer on the horizon: the European Community's efforts to achieve economic integration by the end of 1992. There are both pros and cons to this development from the point of view of the United States.

The most important positive aspect is that the EC is reducing restrictions on business generally, not just on foreign trade. That is bound to make European-based companies more competitive. There will be plant closings as well as openings and expansions. Some economists expect that the completion of the economic integration of the European Community will ultimately increase the region's GNP by 5 percent or more. Very little of that rise will result from removing the relatively few remaining trade barriers within the common market. Most of the increased economic growth is expected to come from three other sources: removing regulatory barriers to production, achieving greater economies of scale, and intensified competition within the European Community.

There is also a big drawback -- the wall around the EC is not coming down. If anything, it will become more visible as the walls within the EC are removed. The odds are that U.S. firms established in the European Community will do well, especially those that are efficient, high-tech, and well-capitalized. High-cost European firms that have been sheltered from international competition will suffer in the process. But U.S. exports to the EC will rise more slowly than they would have in the absence of an integrated European Community.

The odds are that U.S. firms already established in the European Community will do well after 1992, but U.S. exports to the EC will rise more slowly.

Economic integration is not political integration. Although much decision-making power is shifting to Brussels (the headquarters city of the EC), each of the twelve member nations will retain its sovereignty. Each is likely to keep its own currency past 1992, even though the European currency unit (ECU) will play a greater role in international financial transactions. Each country will retain its own value-added tax and other revenue systems, although some harmonization may be achieved. Most fundamentally, twelve independent countries, albeit working in harmony much of the time, will still generate their individual values, needs, and culture.

For the United States, then, the benefits of 1992 are a bit problematic. Beyond that, in the 1990s eastern Europe and western Europe are likely to be moving closer together. There are early signs of that already. The Hungarians' taking down the fence between Austria and Hungary was not just a symbolic act. There has been an increase in economic

relations between key eastern and western countries which bodes well for the future. The Austro-Hungarian empire was a political bust, but economically it made sense. The Austrians and the Hungarians are beginning to get together again in an economic way.

East Germany and West Germany already have a very substantial trade flow. East Germany acts in good measure as an informal member of the European community because of its trade access via West Germany.

Why make a point of all this? If the integrated European Community, with separate political systems but by and large a unitary economic structure, does come off in 1992 -- and the odds are quite good that it will -- then during the 1990s Europe will become the world's largest market. Japan as well as the United States will be on the outside. If European trade restrictions are aimed mainly at Japan, that nation can be expected to focus its market efforts primarily on the western hemisphere. The United States has to decide who are its friends and who are its foes. Americans treat the Soviet Union's Gorbachev much more nicely than we do Japanese leaders.

Conclusion

Notwithstanding the rising tensions between domestic and international forces, individual private enterprise is becoming increasingly global in scope in its purchasing, financing, production, and marketing. Government policy is changing, both here and overseas, but it is playing "catch up" ball. There is, however, a third force. The role of the citizen/voter/consumer is still ambivalent.

When they go to the polls, or when they write to their congressmen or senators, voters care about jobs in their locale, their state, and their country. Politicians react to that pressure. Many companies take advantage of it as well. After all, every company wants competition -- for the other fellow, and especially among its suppliers.

The upbeat aspect of this is that, while consumers may cast their *votes* in this traditional, territorial way, when they spend their *dollars*, they buy products made anywhere in the world. They routinely travel to places once prohibitively distant, and communicate in an instant with people all around the globe.

Without thinking about it too deeply, most consumers are already adapting to a truly global economy. It does not take much to forecast that, over the years ahead, economics and technology will increasingly force voters, government officials and business executives to further adjust to being part of the global marketplace.